



ARIZONA STATE SENATE
Fifty-Fifth Legislature, Second Regular Session

AMENDED
FACT SHEET FOR S.B. 1268

PSPRS; deferred retirement option plan

Purpose

An emergency measure that extends, from 60 months to 84 months, the voluntary Deferred Retirement Option Plan (DROP) participation period for certain Public Safety Personnel Retirement System (PSPRS) members. Prescribes payments to a DROP participants' account for the additional 24 months of voluntary participation.

Background

The PSPRS Board must offer DROP participation to a Tier 1 member who has at least 20 years of credited service on a voluntary basis as an alternative method of benefit accrual. DROP provides Tier 1 members who elect to participate access to a lump sum benefit in addition to their normal monthly retirement benefit on actual retirement. A Tier 1 member who elects to participate in DROP must voluntarily and irrevocably designate a period of participation of up to 60 months (A.R.S. §§ [38-844.02](#) and [38-844.03](#)).

A DROP participants' account must be credited with: 1) a monthly amount computed in the same manner as a normal retirement benefit using the factors of credited service and average monthly benefit compensation in effect on the date of DROP participation; and 2) a monthly amount that represents interest on the deferred monthly benefit at a rate equal to the assumed rate of return ([A.R.S. § 38-844.05](#)).

The Joint Legislative Budget Committee fiscal note on S.B. 1268, as amended by the Senate Finance Committee, estimates that the increase in the maximum DROP participation period may result in a change to: 1) the PSPRS actuarial funded status, which would impact the system's contribution rates; and 2) an employer's direct payroll costs, depending on employees' employment decisions that result from the change in the DROP program ([JLBC fiscal note](#)).

Provisions

1. Extends, from 60 months to 84 months, the voluntary DROP participation period for Tier 1 members who:
 - a) are at least 51 years old; and
 - b) have at least 24.5 years of credited service.
2. Allows a PSPRS employer, notwithstanding the age and participation requirements and until January 1, 2028, to approve an extension of the member's DROP participation period for up to an additional 24 months, if the member is participating on the effective date of this legislation.
3. Requires, by January 1, 2023, PSPRS to transfer the accumulated balance of a member's DROP participation account to an account created for the member in a defined contribution plan (DC

plan) at the end of the first 60-month period if the member extended their DROP participation past 60 months.

4. Requires, for the DROP participation period between 60 and 84 months, all DROP benefits to be deposited in the member's DC plan account and prohibits the member from withdrawing the assets of the member's DC plan account until the member terminates employment.
5. Determines that a member's DROP account continues to accrue benefits but not interest from the effective date of this legislation until PSPRS transfers the member's DROP account balance to an account in a DC plan.
6. Requires, by December 31, 2022, the PSPRS Board to report to the Governor and Legislature on recommendations from stakeholders regarding measures that can improve retention for Tier 2 and Tier 3 members and improve recruitment of Tier 3 members.
7. Becomes effective on signature of the Governor, if the emergency clause is enacted.

Amendments Adopted by Committee

1. Requires a prescribed amount of interest on a DROP participants' deferred monthly benefit to be deposited into the DROP participant's account for the 24 months of additional voluntary participation.
2. Requires, by December 31, 2022, the PSPRS Board to report recommendations to the Governor and the Legislature on measures that can improve retention for Tier 2 and Tier 3 members and recruitment for Tier 3 members.

Amendments Adopted by the House of Representatives

1. Adds an emergency clause.
2. Limits eligibility for the extended DROP participation period to Tier 1 members who are at least 51 years old with at least 24.5 years of credited service.
3. Allows a PSPRS employer, notwithstanding the age and participation requirements and until January 1, 2028, to approve an extension of certain member's DROP participation.
4. Outlines requirements for the deposit and transfer of a DROP participants' accumulated balance and benefits to a DC plan.
5. Makes conforming changes.

Senate Action

FIN	2/9/22	DPA	6-3-1
3 rd Read	3/2/22		21-6-3

House Action

GE	3/23/22	DPA	9-4-0-0
3 rd Read	3/24/22		45-6-9

Prepared by Senate Research
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MG/slp